

**A REVIEW OF ADEQUACY  
IN FINANCING PUBLIC EDUCATION IN ARKANSAS**

**A Report Prepared for the  
Education Adequacy Subcommittee  
of the Arkansas General Assembly**

**By the  
Arkansas Association of Educational Administrators**



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## Executive Summary

Under the Arkansas Constitution, it is the state's responsibility to provide a revenue structure that supports an adequate and equitable education for all students in its public school system. Adequacy represents an attempt to move beyond considering the fairness of fiscal inputs toward the broad-based improvement of educational outcomes. Adequacy seeks to ensure that all students have a quality education. Adequacy asks, "What level of educational resources is sufficient to generate a specific set of educational outcomes?"

Over the years, state government has struggled to transform its approach to financing public education and to fulfill its promise of equal opportunity. Finally, a new funding structure for public schools was enacted by the General Assembly, and adopted by the Arkansas Supreme Court declaring the Arkansas school funding system constitutional. This new funding structure, the diligence of the Arkansas Legislature, and the tireless work of Arkansas educators has proven successful as evidenced by the 2012 **Quality Counts** report published by Education Week ranking the State's public education system 5<sup>th</sup> nationally.

On behalf of the children of Arkansas, the Arkansas Association of Educational Administrators (AAEA) is appreciative of this progress. However, if we expect children to achieve at high levels, then schools must be funded for success. Economists have long believed that investments in education, or "human capital," are an important source of economic growth. Dollar for dollar, investing in public education grows the economy. Several studies by the Brookings Institute conclude that the cost of improving education, through programs such as universal pre-school, is covered several times over by the growth in national revenue.

In the Masters' Interim Report and Final Report it was pointed out that constitutional compliance is an "***ongoing task requiring constant study, review and adjustment.***" Continual assessment and funding priority are provided through state law. Therefore, the AAEA welcomes the opportunity to submit written recommendations and commentary on sustaining and advancing an *adequate* education for the public schools and children of Arkansas.

The following describes and provides recommendations on adequate funding along with findings and research to support these proposed changes. All recommendations are based on the prototypical 500 student school.

- **COLA (Cost of Living Adjustment)**—As established by Act 124 of 2007, the Foundation Funding Matrix is to be adjusted each year for inflation of any appropriate component of the funding system. Due to yearly statutory obligations for salaries of both certified and classified employees (AR Code 6-17-2403 for certified and AR Code 6-17-2203 for classified), it is crucial that a **COLA** be added

each year to those components of the Funding Matrix. The **COLA** used in the Matrix should be the same calculation used for state and local government payroll.

- **Carry-Forward (Operations and Maintenance)**—Increase funding for FY13 and FY14 to reflect accurate inflationary indicators for the cost of maintaining and operating schools. AAEA recommends an inflationary factor of 3.9% based on the actual average growth of Operations and Maintenance costs over the past six years. (Source: Annual Statistical Reports for AR Public Schools 2005-06 to 2010-11)

It is also important to note that many districts experiencing inadequate bandwidth for student instruction and professional development for teachers have purchased additional bandwidth from local providers. This particular “technology” cost is paid for from the Operations and Maintenance budget.

**Carry-Forward (Transportation)** Fund a high cost transportation category for those districts with an extremely high number of route miles within their boundaries. Make this a line-item in the Funding Matrix under Categorical Program Funding. The Adequacy Committee recognized this inadequacy in 2010 and recommended a formula distribution of any additional funds rather than a flat 2% for all districts. However, the Legislature chose not to follow this recommendation and appropriated a one-time allotment of \$500,000 to be distributed to those districts with high transportation costs. The original Adequacy Report called for a study of a high cost transportation formula. While the issue has been discussed in several Adequacy studies, a yearly funding stream distributed by a high transportation cost formula has not been approved.

- **Categorical Programs**—Increase funding for FY13 and FY14 to reflect accurate **COLA** adjustments since many expenditures from the National School Lunch, English Language Learners, and Alternative Learning Environment categories are for personnel costs.

It is important to remember that this matrix is a student-based funding model that does not mandate expenditures levels in most instances. For example, a district may not be spending the matrix amount on technology because they have identified an intervention program not funded by the matrix but which has been successful in improving student achievement. Or, they have identified funds outside the matrix (such as federal funds) for technology expenditures.

AAEA also believes that the requirements of the **Educational Excellence Trust Fund** need to be eliminated. The original legislative intent of this Fund was to increase teacher salaries as revenues increased. The actual impact of these requirements has been that the districts experiencing student growth are required to give raises each year while others are not. An even more inequitable situation occurs when a district (1) drops in local assessments (as experienced in several counties recently) and (2) grows

in student population. Districts in this situation will see the majority of their net increase earmarked as a trust fund increase restricted in its use. A solution would be to just eliminate the "trust fund" label on certain monies. These funds are not additional monies; they are just a portion of Foundation Funding labeled as "trust funds." The current Trust Fund requirements have become an **unfunded mandate** which adds significantly to the salary disparity among districts in the State.

An issue of ever increasing importance to students and teachers is the availability of **adequate bandwidth**, both for instructional purposes and on-line professional development. A recent survey conducted by AAEA indicates that over 75% of districts have experienced problems with inadequate bandwidth the past year. The survey results also indicated that many districts have restricted use of educationally relevant internet sites due to the lack of bandwidth. Over 60% of the districts surveyed indicated they have recently purchased additional bandwidth to address this inadequacy. Districts have been able to purchase smartboards, netbooks, and iPads but are limited in their instructional use due to inadequate bandwidth. Also, there are instances of districts willing and able to purchase additional bandwidth in their community but unable to find a vendor willing to bid on the project. Looming on the horizon is the Common Core initiative and on-line assessments. Arkansas students will not be able to assess student learning unless this issue is addressed.

The Common Core initiative and accompanying on-line assessments, coupled with the state mandated Teacher Excellence and Support System (TESS), calls for a in-depth study of current staffing patterns in the Matrix, the current Arkansas Standards for Accreditation, and state requirements for professional development for educators. All of these initiatives will lead to a re-defining of instructional delivery, administrative support, and quality professional development.

Public school **fund balances** continue to be an issue of discussion. For the past six years, when comparing legal net balances to yearly total net expenditures, the balances have ranged from 15.8% to 18.4% of the yearly expenditures (Source: Annual Statistical Report for AR Public Schools, 2005-2006 through 2010-2011). This represents approximately 2 months worth of expenditures. There seems to be historical precedence for balance carryovers in this range. School Districts do not receive any foundation funding from June 30 to August 31 each year. These months are also typically months of low collections rates for property taxes. Districts are also asked to fund federal programs, including personnel costs, until federal applications are approved, typically in early fall. Historically, districts carry over an amount adequate to meet payroll and operating expenses during July and August, or until the first Foundation funds are received for the new fiscal year. A review of individual district fund balances do indicate several "outliers" with large fund balances including one district that recently saw a one-year increase in their fund balance of \$67 million. AAEA has recommended to the ADE that the annual required financial training for

superintendents and business managers include information on the proper coding of fund categories such as operating, debt service, and building funds.

There is little doubt that Arkansas will continue its efforts to provide its children an adequate and equitable public education. The challenge we face is to engage in continuous dialogue and a continuous process of assessing needs and appropriate levels of funding. AAEA appreciates the opportunity to be included in this process.

AAEA supports the NCLB waiver request that has recently been submitted by the ADE. If approved, the accountability plan for Arkansas will focus on improving student achievement, closing the achievement gap, and increasing the graduation rate. All of these crucial topics have been discussed over the years in past adequacy testimony. The fact that the State's proposed accountability plan includes these identified concerns as the heart of their waiver request is evidence that the State's continues to focus on adequacy and equal opportunity.

AAEA also supports the direction of the governing board of the Arkansas Teacher Retirement System in their pro-active efforts to maintain the stability of the retirement system. ATRS has initiated a number of legislative changes to keep the system benefits reasonable in regards to the financial stability of the system.

AAEA greatly appreciates the work of administrators across the state that provided data, recommendations, and time from their busy schedules in assisting the Association in the development of this crucial report. We also thank them for their commitment to quality instruction for the children of Arkansas.

## **Findings and Research**

### **Operations and Maintenance (Carry-Forward)**

#### ***Rationale:***

All costs—salaries, property insurance and utilities—associated with the operation and maintenance of schools and districts continue to rise dramatically. These costs will always increase and should be adjusted upward each time the funding matrix is recalibrated.

The Annual Statistical Report for Arkansas Public Schools for the past two years shows actual Maintenance and Operation expenses of \$895.79 per ADM in 09-10 and \$920.79 per ADM in 10-11. Both of these are well above the \$616.60 per ADM currently funded in the Matrix. These figures clearly demonstrate that this part of the Funding Matrix for Adequacy cannot be kept level.

Additionally, successfully managing a school environment is a necessary and essential educational investment. Research increasingly shows that there is a clear link between environmental quality of schools and educational performance.

- Facility management systems determine environmental quality in schools.
- School environment quality shapes attitudes of students, teachers and staff.
- Attitudes affect teaching and learning behavior.
- Behavior affects performance.
- Educational performance determines future outcomes of individuals and society as a whole.

Schools are not primarily environmental showcases. Schools are special environments that exist for the purpose of enhancing the learning process. They are sensitively built housing very special segments of the population. If not properly maintained, schools can be environments where adverse health effects manifest themselves.

The cleanliness of schools is an important aspect of school environments. Clean schools not only lower the threat of the spread of illness, but also convey a caring message to the students and teachers. Cleaning and maintenance of schools is vitally important and is often underemphasized. Students feel better going to clean classes and sitting in clean desks and surroundings.

Adequate funding for operation and maintenance costs is critical to providing a healthy school environment that shapes attitudes and, eventually, positive performance.

### Facilities

Another factor in rising maintenance and operations costs is the dramatic increase in record-keeping and reporting requirements for the Facilities Partnership Program. In an effort to keep up with complex rules and regulations governing Partnership guidelines and applications, Master Planning guidelines, and the Preventive Maintenance guidelines and data maintenance requirements, a number of districts are contracting for these services through the educational cooperatives or through purchased services contract with independent facility specialists. An informal survey of cooperatives indicate that approximately half of the districts in the state are using cooperative or contracted services for facility management services. These facility administrative/clerical costs to districts have never been recognized in the funding matrix.

### Transportation

The current transportation funding level of \$303.80 per pupil was based on the average cost of all Arkansas school district's actual transportation expenditures in FY05 with minor adjustments since then. With actual costs for FY10 at \$393.00 per student and

FY11 at \$420.00 per student, the \$303.80 per student is severely inadequate. (Source: Annual Statistical Reports for 2009-2010 and 2010-2011).

Additional cost factors not mentioned above include recent changes in emission standards applicable to transportation vehicles, increased salary costs, and escalating bus replacement costs. The Arkansas department of Academic Facilities and Transportation has data indicating that the cost of school busses has risen approximately 40% over the past decade.

## **Categorical Funding**

### ***Rationale:***

Initial financial support for categorical funding was created using the original salary+benefits amount established in the Foundation Formula of \$48,750 in FY04-05. That funding was held level for three years while salaries used in the funding formula increased to \$52,321 in FY06/07, an increase of 7.3%. This oversight was corrected in FY09 and FY10. As school level salaries are adjusted using accurate inflationary indicators, the categorical funding levels (NSL, ELL and ALE) should be subsequently adjusted at the same salary levels. A **COLA**, based on the same calculations for state and local government payroll, needs to be applied for FY13 and FY14.

In consideration of the high levels of fund utilization tied to salaries and benefits, holding the funding levels constant in subsequent years is detrimental to school districts attempts to effectively apply funds to address student needs. Current conditions require that school districts hold adequate reserve balances to offset mandated salary and benefit cost increases.